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JOINT-STOCK INVESTMENT IN THE LATER SEVENTEENTH CENTURY[1]

BY K. G. DAVIES

I

THE prevailing mood of the generation which was born in the reign of Charles I and reached maturity at, or soon after, the Restoration was optimism in economic matters, tempered slightly but not profoundly by misgivings about the political future. This generation spoke with many voices and nearly all agreed that between the Restoration and the Revolution England had reached a new high level of prosperity and was within sight of a yet higher. The writings of Petty, King, Davenant, Locke, Child, North and Barbon clearly have their limitations as evidence of the material prosperity of the period. No one believes that the estimates of the national income and wealth made by Petty in 1665 and Gregory King in 1688 are anything more than reasonable guesses. But the accuracy of their estimates does not seem to matter as much as the story they tell. King, in making his analysis of the year 1688, must have been perfectly familiar with Petty's figures for 1665; so that his raising of the national income by eight per cent. and the national wealth by twenty-three per cent. may be taken as an indication of the growth which an intelligent observer believed had taken place in twenty-three years.[2]

Not all the expressions of optimism were as well grounded even as those of the political arithmeticians, who at least contrived quantitative evidence of a kind. Other writers based their hopefulness on what they saw rather than on what they calculated; but it cannot be said that for catching the mood of the period their evidence is any the worse for that. They looked for the tokens of capital investment in town buildings, farmhouses,

[1] This article is based on a paper read on 14 April 1951 at the annual conference of the Economic History Society at Oxford.

[2] Sir William Petty, 'Verbum Sapienti' in *Economic Writings*, ed. C. H. Hull, I, 105–8; Gregory King, 'Natural and Political Observations upon the State and Condition of England' in *Two Tracts by Gregory King*, ed. G. E. Barnett (Johns Hopkins Press), p. 32.

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shipping, agricultural improvements and inclosures; and for a rising standard of living in the extravagances of Restoration England. For the most part they were well pleased with what they saw.

This optimistic sentiment prompted first, an inquiry into the foundations of a prosperity which most people assumed to exist, and secondly, a search for the means whereby the wealth of England could be advanced yet further. The period opens with Fortrey's tract, *England's Interest and Improvement*, a title indicative of a general disposition towards national advancement. 'All of us', wrote a pamphleteer in 1674, 'should be endeavouring how they may do good in their generation and be beneficial to the publick.'[1] Much of the economic inquiry and propaganda of the time was directed towards the discovery and publication of the rules by which the potential wealth of England could be developed, and few denied that that potential existed. While there was certainly no agreement as to what these rules might be, there was nevertheless a fairly general drift towards economic freedom. This might be no more than special pleading, an easing of the shoe at a particular point where it pinched; but often it was something more. Few writers proposed to fasten more tightly the bands which still constricted the economy, while many sought to loosen them. Child drew up a whole programme of desirable economic freedoms;[2] Fortrey, Petty and Barbon all contributed some idea or example;[3] and there is a thorough liberalism about Sir Dudley North's contention that 'We may labour to hedge in the Cuckow but in vain; for no People ever yet grew rich by Policies; it is Peace, Industry and Freedom that bring Trade and Wealth and nothing else'.[4] No doubt the aim was a greater freedom within the framework of control, a greater number of exceptions to a general rule. But already the exceptions were multiplying so rapidly that the rule was in danger of disappearing altogether. The later seventeenth-century conception of economic freedom was neither comprehensive nor effective. But its growth and development illustrate the optimism and buoyancy of the period, while the search for improvements testifies to confidence in the future.

In the explanations put forward for a prosperity which all but a few admitted, the writers of the time were less original than in their suggestions as to how that prosperity could be enhanced. Partly or wholly they ascribed it to trade, and more especially to foreign trade.[5] Years earlier

[1] Carew Reynell, 'The True English Interest' in Whitworth's *Scarce Tracts on Trade and Commerce*, I, 143.

[2] Josiah Child, *A New Discourse of Trade* (4th edition), pp. 77–9.

[3] Fortrey proposed free immigration (*England's Interest and Improvement* (Johns Hopkins Press Reprints), p. 13); Petty proposed free trade between England and Ireland (*Collected Writings*, I, 299); Barbon favoured the substitution of tariffs for absolute prohibitions (*A Discourse of Trade* (Johns Hopkins Press Reprints), pp. 35–7).

[4] *Discourses upon Trade* (Johns Hopkins Press Reprints), p. 37.

[5] For example, Petty in *Economic Writings*, I, 295; Reynell in Whitworth's *Scarce Tracts*, I, 140–1; 'Britannia Languens' in *A Select Collection of Early English Tracts on Commerce*, ed. J. R. McCulloch, pp. 286–7.

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it had been a commonplace that the normal way to enlarge the national wealth was by foreign trade.[1] Now more emphasis was being placed on the development of natural resources, but foreign trade continued to hold its place in general estimation as the prime factor in a rising prosperity. When Gregory King estimated in 1688 the annual 'superlucration'—the excess of national income over expenditure—he calculated that nearly three-quarters of it derived from foreign trade and only just over a quarter from inland trade and labour;[2] and in his famous grouping of the population of the country he singled out 'greater merchants and traders by sea' as the class which, with lords spiritual and temporal, contributed most per head to this annual superlucration.[3] In other words, foreign trade was still regarded as the quarter from which capital for investment was most likely to come.

For an inquiry into investment, it is almost as important to indicate the mood of a period as it is to establish whether that mood was well-founded. There are indeed particular difficulties in the way of gauging the progress of material prosperity in the seventeenth century. Little has been discovered of either the short-term fluctuations or the long-term trends in industrial production. Since the obscurity is general, one easily accessible piece of evidence is perhaps worth mentioning, the granting of patents for inventions. It is of special interest in the history of investment, for in the closing years of the century several joint-stock companies were floated on the strength of such patents and little else. The number of patents issued may be no guide to the industrial progress which was actually achieved, but it may indicate expectations, since inventors may be presumed to market their creations at moments when it is likely that use will be made of them. In the last forty years of the seventeenth century two hundred and thirty-six patents for invention were issued; in the first forty years of the eighteenth century the number was substantially less, two hundred and four.[4] Three years, 1691–3, yielded sixty-four patents, and it is not until some years after 1760 that the eighteenth century can show a greater triennial aggregate. It is true that some of the patents issued in the seventeenth century were of little industrial significance;[5] but most of them appear to have been intended as serious contributions to industrial development. Thirty were issued for inventions which were designed for draining mines or for land reclamation, enterprises obviously calling for large sums of money. This single piece of evidence will not bear any weighty conclusions, but it seems at least arguable that industry, while not sharing the high level of promise and achievement enjoyed by overseas trade, felt some of the benefits of a bracing economic climate.

[1] Mun, *England's Treasure by Forraign Trade* (Oxford Reprint), p. 5.
[2] 'The Naval Trade of England, anno 1688' in *Two Tracts*, p. 64.
[3] Ibid., p. 31.
[4] *Titles of Patents of Invention, Chronologically Arranged, 1617–1852.*
[5] As, for example, that for 'a new sort of table to be played upon with balls to fitt into several small hollows, the same table made so mathematicall and equally placed and inlaid with chances of dice as may prevent all cheating thereat'.

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More serious than our ignorance about industry is the uncertainty about land rents. Petyt, author of *Britannia Languens* and one of the few genuine jeremiahs of the period, convinced himself that a general fall in rents and values had taken place before 1680.[1] In dramatic and picturesque phrases he diagnosed the ruin of yeomen and gentry at almost precisely the moment when, modern research suggests, it was about to begin.[2] Davenant, a more sober witness, allowed that certain rents had fallen but claimed that in aggregate they had increased.[3] This view is shared by other writers and is confirmed by recent inquiry.[4] But it is exceedingly dangerous to generalize about a subject so little studied as land-ownership in the later seventeenth century, and it would be particularly dangerous to attempt any worth-while contrast between the comparative attractiveness of direct or indirect investment in land and investment in joint-stock companies. We cannot be confident that even a marked disparity between the yield of mortgages and the yield of the safest company stock would at this date have produced a significant flow of capital into one or other form of investment.

Even though we have only imperfect statistics there is no analogous uncertainty about the general trend of England's foreign trade. What evidence there is seems unmistakably to confirm the impressions of many contemporaries that the last forty years of the seventeenth century were an important period in the history of English commercial expansion. Comparing such figures as exist for the years immediately following the Restoration with the Inspector-General's records beginning in 1696 (which at this date appear to be under- rather than over-valuations) it seems certain that a great increase in England's foreign trade took place. Some writers gloried in this expansion; others deplored it as the harbinger of economic disintegration. But few denied it.[5]

[1] 'Britannia Languens' in *A Select Collection of Early English Tracts on Commerce*, ed. J. R. McCulloch, p. 283.

[2] Ibid., p. 377.

[3] 'Discourses upon the Public Revenues and on Trade' in *Works*, ed. Sir C. Whitworth, I, 362.

[4] H. J. Habakkuk, 'English Landownership', in *Econ. Hist. Rev.* (1940), X, 2.

[5] In 1662–3 London's exports of goods of English production were valued at £2,022,812 (Brit. Mus., Add. MS. 36785). The average comparable figure for the years 1698–1701 was £3,576,888 (P.R.O., Customs, 3/3–5). No figures are yet available for the years before 1696 either of exports from out-ports or of re-exports, so that the picture is necessarily incomplete. As it is, the figures cited are open to at least two objections. First, the years 1698 to 1701 were years of good trade following a war. On the other hand, 1662 was also a year of good trade between two depressions; so the comparison is roughly between like and like. Secondly, the valuations in both cases are open to question. But Davenant, who was no mere amateur collector of statistics, was of the opinion that exports in 1662–3 were fairly valued. As for the Inspector-General's valuations, a correlation has been made between those set by him on exports to Africa and the invoice rates of the African Company for the years 1698–1704. Unfortunately all commodities cannot be compared, the Company rating for example cloth by the piece, and the Inspector-General by weight. But, so far as it goes, the correlation shows that more often than not the Inspector-General's

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Another, and possibly more acceptable, indication of the prosperity of the period is to be found in the rate of interest. In 1625 the legal rate stood where Henry VIII had settled it—at ten per cent. In that year it was reduced to eight per cent. and in 1651 to six. No further reduction was made until 1714, but long before that date writers like Josiah Child were arguing that five per cent. or even less would be both beneficial and practicable.[1] Even pessimists like Petyt agreed that 'there is now as much money to be let on good securities as there are securities, or rather more';[2] but this was taken as evidence of a decline in the number of good securities rather than of an increase in the amount of capital seeking investment. At this date there was no conspicuous fixed-interest security the yield of which would indicate changes in the market rate of interest. Government borrowing did not give rules to the capital market as it did in the eighteenth century; instead it limped along two, three or four per cent. behind the private borrower.[3] While the Government was paying eight or ten per cent., a money-lender in Somerset was charging six.[4] After 1677 the Royal African Company was usually able to borrow at five per cent.; while the East India Company is said on one occasion to have borrowed at the unprecedented rate of three per cent., and still to have had difficulty in persuading creditors to accept repayment.[5] Such variations in rates can only in part be explained by differences in risk or in the term for which a loan was contracted. They were partly the product of an unorganized capital market in which the left hand seldom knew what the right was doing; so that it is only with reservations that we should speak of a rate of interest in the seventeenth century.

The extended (and probably greatly extended) use of credit instruments was certainly a symptom of the general optimism. In 1698 Davenant estimated that the assignable instruments in circulation totalled £15 millions and exceeded the coinage in the proportion of 5 to 4.[6] If confidence

rates were below those of the Company. Iron, for example, was rated by the Inspector-General at £13 per ton from 1700 to 1704. During that time the Company dispatched thirty-four consignments, three rated at £17 per ton, three at £16, three at £15. 10*s*., four at £15, six at £14, eight at £13. 10*s*. and seven at £13. In this particular instance the Company's invoice rate represents the price at which it had itself bought the iron.

[1] *A Treatise Wherein is Demonstrated* (1681), p. 4; *A New Discourse of Trade* (4th edition), pp. xxxiv–xxxv.

[2] *A Select Collection of Early English Tracts on Commerce*, ed. J. R. McCulloch, p. 453.

[3] 'If the legal rate were 10, his Majesty might probably give 13 or 14; so if interest be brought to 4 per cent. his Majesty in such cases as he now gives 10 must give but 6 or 7.' (Child, *A New Discourse of Trade*, 4th edition, pp. 18–19.)

[4] List of debts owing to Richard Cabell of Brooke, Somerset, at his death in 1671. Newman Archives, No. 222. I am indebted to Sir Ralph Newman, Bart., for permission to cite this manuscript.

[5] W. R. Scott, *The Constitution and Finance of Joint Stock Companies to 1720*, II, 141.

[6] *Works*, I, 362.

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was reposed in securities of this kind, it is not surprising that issues of stock by companies whose reputation and prospects were at least as good as those of some of the bankers should have proved acceptable.

The buoyancy of the period and the progress of material prosperity which on the whole may be said to have justified this mood do not seem to have been seriously affected by the crises which supervened. Between 1665 and 1667 England experienced a series of disasters such as she had not known for three centuries. Losses by the Plague are incalculable, but the damage done by the Fire has been put at £10 millions.[1] This represents four per cent. of Petty's estimate of the total national wealth; and one-sixth of that part of the national wealth which bore the brunt of the damage, houses, furniture and merchandise. Yet it is remarkable how rapidly recovery was effected. The bulk of private rebuilding took place within four to six years after the Fire, and nearly every house built was a capital improvement as well as a replacement. Since the loss was borne largely by the business community, foreign trade must have experienced a temporary setback. Yet in 1668/9 London's exports were slightly *higher than they had been in 1662/3.*[2]

II

The flotation of a new joint-stock company in 1671 may be taken as a sign that recovery had been rapid and complete and that capital was again available for commercial investment. On 10 November in that year the Royal African Company launched an appeal for £100,000; on 11 December the books were closed, the stock having been over-subscribed by eleven per cent.[3] As it stands this was not a particularly remarkable achievement compared for instance to the subscription in three days of the £2 million public loan which the New East India Company floated in 1698.[4] Nevertheless, if the special circumstances unfavourable to investment in an African project are taken into account, it does suggest that capital was notably forthcoming. In the first place, an old, bankrupt African Company was still in existence as nominal proprietor of the trade which the new one hoped to enjoy. No legal machinery existed or was in the course of construction for its equitable liquidation, and the only course open was for its creditors and shareholders to be bought out by a new company. In the event nearly a third of the new capital was used for this purpose; and it is no encouragement to an investor to know that 6*s.* 8*d.* of every pound he puts up will be used for discharging obligations in which he is not concerned. Secondly, the failure of the earlier company had shown

[1] T. F. Reddaway, *The Rebuilding of London*, p. 26. Compare Gregory King's estimate of the loss from the Plague and Fire together in *Two Tracts*, ed. G. E. Barnett, p. 63.

[2] Brit. Mus., Add. MS. 36785.

[3] P.R.O., Treasury (Expired Commissions), 70, 100. The records of the African Company are hereinafter cited as P.R.O., T. 70.

[4] Scott, *Joint Stock Companies*, II, 166.

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conclusively that the African trade was not necessarily a golden one. Losses of over £100,000 had been incurred, and amongst those who had been parted from their money were the King and Queen, the Duke of York, Prince Rupert, two princesses of the blood, three dukes, eight earls and seven barons; so that in certain influential quarters a new African venture probably did not commend itself. Much of the loss sustained had been due to the Second Dutch War in which the English had been all but expelled from Africa. Now in 1671 renewal of war with the Dutch was imminent, with every likelihood of history repeating itself in Africa. Finally, to complete the picture of the new company's prospects as an investment, seven days after the subscription book was closed and before a penny of the capital had been called up, the Stop of the Exchequer was ordered and, according to Scott, the second of the major crises of the period began.

None of these adverse circumstances appears to have deterred the investor in 1671. The stock was over-subscribed; the full sum was called up and promptly paid in;[1] and of two hundred original subscribers only ten defaulted their options, all but £500 being at once taken up by other investors. Neither the flotation of this company nor its subsequent financial history suggest that there was any serious difficulty about raising money even for a venture that was not too promising. In 1675 the share-capital proved insufficient for the trade to which the company was committed, and it was faced with the necessity of either issuing fresh stock or borrowing upon the security of its seal. Bonds, redeemable at par and bearing a fixed rate of interest, possessed a security such as could not be attributed to ordinary stock. They could therefore be issued at an interest-rate below that which holders of ordinary stock would expect to receive. The fact that it was possible to raise money by borrowing instead of issuing stock is indicative of a public confidence which the company was able to turn to its profit. Moreover, by confining its share-capital within narrow limits and trading on borrowed instead of subscribed money, a company could concentrate its profits upon a small number of investors; dividends would therefore be greater and the consequent high price of the stock would bring substantial capital gains to the lucky few.

The bonds issued by seventeenth-century joint-stock companies were, as Scott said, 'a striving towards the modern debenture'.[2] In origin they represented short-term loans repayable at three or six months or even at call. But, in conditions which favoured the borrower, they rapidly acquired some of the characteristics if not the name of long-term debts. Many bond-holders were content to prolong the term for which a loan had been originally made; others were prepared to accept new bonds as soon as their old ones matured; and if a creditor required payment it seldom proved difficult at this time to find someone else with whom a similar loan could be negotiated. Thus loans contracted for three or six months were

[1] The power to fine subscribers whose payments were overdue had only to be invoked twice.

[2] *Joint Stock Companies*, I, 304.

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carried over for eight, ten or twelve years or longer.[1] By 1684 the African Company's debt on bonds was about £100,000, very nearly the equivalent of its share-capital. Although this debt consisted of a large number of what were formally short-term obligations it had this essential characteristic of a long-term debt, that no provision had to be made or was made for the repayment of the whole or even a large part of the sum outstanding. In a capital market which was running in favour of the borrower it was not disadvantageous to negotiate loans which would come up at regular intervals for repayment or extension. The benefit could thus be taken of any fall in the rate of interest which might occur. In 1677 the African Company was able to convert the whole of its bonded debt, originally contracted at six per cent., to five, at which rate it remained, with the exception of a few months, until 1689.[2] The ease with which this conversion was effected does not mean that the arguments of those who sought to lower the legal rate of interest were necessarily beside the point; clearly a powerful corporation with visible assets and useful friends could exploit the favourable conditions more fully than a private person.

This company owed much of what success it achieved in these years to its ability to dictate to the capital market terms favourable to itself. The same easy conditions are perceptible in the history of its ordinary shares. In the first twenty years of its existence the company paid dividends totalling 142½ per cent., a fraction over seven per cent. per annum. By this token the market price of the stock should not have exceeded 130 or 140; and if, as we must, we take into account the element of risk it should not have been much above par. Unfortunately very few quotations of this or any other stock have survived for the years before 1692; but those that exist suggest that it normally sold well above par. In the early 1680's for instance the price was 245;[3] in January 1689, despite the political crisis, it was 191;[4] and in October 1691 it was the equivalent of 196.[5] Although such prices reduced the yield for new investors to a beggarly three or four per cent. per annum, even at the end of twenty years of modest dividends the stock still sold at up to 200. This low yield is especially important in view of the fact that dealings in the stock were brisk. In the five years ending in 1690, transfers totalled £95,000, the equivalent of nearly the whole stock.

The finances of the East India Company in the same years suggest a similar and even more intensive pressure from investors, enabling that

[1] For example, Lady Pierpoint lent the Royal African Company £2,000 in 1681. Interest was paid annually but the whole sum with additional loans subsequently contracted was still outstanding on 31 December 1694. Similarly Robert Richardson, senior, lent £200 on 31 October 1682 and a further £300 on 1 November 1683; the whole sum was outstanding on 31 December 1688.

[2] P.R.O., T. 70/77, fo. 31v. Six per cent. had to be paid for a few months in 1683 and 1684.

[3] Scott, *Joint Stock Companies*, I, 302.

[4] P.R.O., T. 70/101, fo. 25r.

[5] Whiston's *Merchants Weekly Remembrancer* for 26 October 1691, Brit. Mus., Burney Collection, 140 *bb*. The price of the quadrupled stock was 49, or 196 in terms of the original stock.

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company to keep its issued stock small and to trade extensively on borrowed capital. In July 1685, for example, the company owed well over £500,000 on its bonds,[1] compared to a nominal share-capital of under three-quarters of a million. The rate at which it could borrow was at times so low as to have the positive disadvantage that even a temporary hardening of the market caused considerable embarrassment; as in 1682, when repayments had to be suspended for a few months. Although this was only a momentary setback, it underlined how much the success of the Restoration joint-stock company depended on a stable or falling rate of interest, and it foreshadowed the difficulties that would be encountered after 1689. As everyone knows, the dividends paid by the East India Company in these years were extremely large and the price of the stock soared. After the fashion of seventeenth-century joint-stocks the company was accustomed from time to time to calculate its net assets and to set a valuation upon £100 of its stock, a relic of the days when investments had been periodically redeemable. In 1685 £100 of India stock was calculated to be worth £327 sterling in terms of net assets.[2] In that same year the market price fluctuated between 360 and 500,[3] so that the investor was setting a far higher valuation upon the stock than the company did itself. In the four years, 1685 to 1688, annual dividends of twenty-five per cent. were distributed, and though we do not know for certain the price of the stock, the yield must have been under ten per cent., not a magnificent return on a holding of ordinary shares.

The East India Company's practice of trading on borrowed money did not escape the notice of would-be investors. One writer in 1680 complained that 'although the stock be not near sufficient to manage even the present trade and therefore could admit of more depositums of money which would let in a greater number of people, the company to prevent the necessity of it do take up £400,000 or £500,000 at interest at five per cent. which by their dear sales at home yields them twenty or thirty per cent. or more'.[4] From one important point of view the history of the opposition to the East India Company is the story of attempts either to force the Company to make a fresh issue of stock at par or to found a venture with a very much larger share-capital.[5] In 1681 a new company was projected with a capital of £3 millions, eight times the then paid-up capital of the old company, and £1 million was actually subscribed before the venture was abandoned. The aim of the malcontents in the long struggle with the old company which began in 1689 was to depress the market price of India stock to a level low enough for a new issue to be made at par, and only when this failed did a rival promotion materialize. The subsequent fusion of the two companies shows clearly that what the malcontents wanted was not a new

[1] India Office Records, Home Miscellaneous, IV.
[2] Ibid.
[3] Scott, *Joint Stock Companies*, II, 178.
[4] 'Britannia Languens' in *A Select Collection of Early English Tracts on Commerce*, ed. J. R. McCulloch, p. 341.
[5] Scott, *Joint Stock Companies*, II, 150–1.

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company as such but a very much enlarged field of investment. Given the easy capital market and the political situation which obtained before 1689 there was every likelihood that the old company could have held out. Its troubles really began when the war with France created a stringency in the capital market which made borrowing more difficult.

The effects of the war which began in 1689 upon joint-stock investment are very striking. Reduced opportunities for the personal employment of capital in foreign trade at first induced an increase in the pressure of investors upon established trading companies. The years 1691 and 1692 saw an activity in India, African and Hudson's Bay stocks which was quite without precedent. The equivalent of the whole India stock was said at this time to be changing hands every two years.[1] Dealings in Hudson's Bay stock (nominal capital £31,500) amounted to over £40,000 in 1691,[2] while the equivalent of nearly two-thirds of African stock was transferred in five weeks in June and July of the same year.[3] Large scrip dividends paid by the last two companies partly account for this activity;[4] but they merely supplied the excuse for a stock market which was already overloaded with investible capital. When the likely length and consequences of the war became apparent the activity died away and capital was left, as it were, at a loose end. In the eighteenth century the third year of a war was the moment for a constriction of the capital market as the Government stepped in and compelled capital away from private investment into the public funds. Professor Ashton has shown that in that century technological progress marched more rapidly in times of peace.[5] But this does not seem to be a golden rule. The slowing down of technological development in the wars of the eighteenth century was due to public borrowing; at the close of the seventeenth century loans to the Government still provided no satisfactory alternative investment, and when capital lost its preference for foreign trade, it fell back upon domestic projects. 1692 and 1693 were years of feverish activity by promoters of both inventions and companies, and altogether, between 1689 and 1695, the number of joint-stock companies in England increased from eleven to about a hundred, the increase being almost entirely in the field of domestic ventures.[6] One good reason for this boom in company promotion was the coincidence of favourable market and political conditions. For the first time joint-stock ventures were coming into existence in large numbers without a charter from Crown or Parliament, based simply upon articles of association or a patent. Thus one of the chief obstacles to the creation of new opportunities for investment was removed.

[1] 'An Account of Some Transactions' in *Somers' Tracts* (1813), x, 626.
[2] Hudson's Bay Company Archives, A. 43/2.
[3] P.R.O., T. 70/187–8.
[4] The Hudson's Bay Company paid a scrip dividend of 200% in September 1690; the African Company paid 300% in July 1691.
[5] *The Industrial Revolution*, pp. 90–1.
[6] Scott, *Joint Stock Companies*, I, 327.

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III

The remainder of this article is given over to an attempt to ascertain from what quarter the pressure upon joint-stock investments was coming in the twenty years before 1692. In studying the ownership of this type of capital at this date, certain rather obvious facts ought to be kept in mind. The first and most important is the absence of limited liability. Since the deficiency is clearly a critical one it is necessary to glance for a moment at two arguments which have been advanced to suggest the existence of limited liability in the seventeenth century. The first (that of Scott) was based upon an Act of 1662 which he said 'created a species of limited liability in favour of shareholders in the East India, African and Fishery Companies'.[1] In fact all that this act did was to confirm the exemption from bankruptcy procedure which persons outside certain statutorily defined occupations had previously been thought to enjoy.[2] It said nothing of debts incurred by companies and referred only to private debts contracted by persons who happened to be shareholders. Moreover a commission of bankruptcy was not the only way of proceeding against a debtor, so that the exemption was formal rather than of much practical value.

The second suggestion put forward is that shareholders in companies incorporated by charter enjoyed at common law full limited liability as one of the privileges of incorporation.[3] Technically this may have been so, although a number of seventeenth-century joint-stock companies which acted as if they were incorporated had no charter and their right to be reckoned corporations by prescription is open to question. But even this technical limited liability was qualified by the power, exercised by certain companies and apparently possessed by all which did not specifically disclaim it, to make calls upon shareholders over and above their liability on unpaid stock.[4] The Royal African Company, for example, made just such a call in 1705.[5] More to the point, companies such as the Royal Adventurers, the Royal African and the Mines Adventurers did not behave, in their relations with their creditors, in such a way as to suggest that they were conscious of limited liability. Debts, for which shareholders who enjoyed limited liability would not have been responsible, were the

[1] Ibid., I, 270.

[2] The Act in question was 13 and 14 Car. II, c. 24. The statute of 13 Eliz. c. 7 defined the classes subject to bankruptcy procedure as 'any merchant or other person using or exercising the Trade of Merchandize, by way of Bargaining, Exchange, Rechange, Bartry, Chevisance, or otherwise in Gross or by Retail, or seeking his or her Trade or Living by Buying and Selling'. By 21 Jac. I, c. 19 this definition was extended to include scriveners. In the case of Sir John Wolstenholme the Court of King's Bench held that the mere act of participation in the East India Company's stock brought a man into one of the above classes and thus rendered him subject to the law of bankruptcy. See *Court Minutes of the East India Company, 1655–1659*, pp. 76, 112, 114. This judgement was reversed by the Act of 1662.

[3] H. A. Shannon, 'The Coming of Limited Liability', in *Economic History* (1931), II, No. 6.

[4] C. A. Cooke, *Corporation, Trust and Company*, pp. 76–9.

[5] P.R.O., T. 70/102, 1 February 1705.

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ruin of all these companies; the creditors of the Royal Adventurers, as we have already seen, had to be bought out by a new subscription, and an accommodation with the creditors of the other two was reached only after special legislation.[1]

In the second place, the seventeenth-century joint-stock company was not, in the full, modern sense of the term, a public company, although its shares might be bought and sold with what appears to be a considerable degree of freedom. Companies could not control dealing in their stock, but they could and did control admission to the benefits of stock-ownership. All through the century the East India Company preserved the conception and practice of a freedom into which it was necessary for new members to enter in one of the four traditional ways, and it was entry into this freedom which confirmed the beneficial interest.[2] By this means a company was able to exercise some control over its personnel, and the East India Company, for example, used its power to exclude foreigners from direct or beneficial participation in the stock.[3] Nor can it be said that an investor's interest in his stock, even after he had been admitted to the freedom, was a perfect freehold. Several cases are on record where a shareholder was refused permission either to transfer his stock or to receive any dividends upon it, and both the East India and the African Companies were empowered by their charters to confiscate the holdings of persons indebted to them.[4]

Thirdly, before 1690 facilities for buying and selling company stock appear to have been primitive. Although recognized brokers were in existence some years earlier,[5] the purchase and sale of stock probably remained very much a matter of the two parties concerned finding one another. A study of the transfers of India, African and Hudson's Bay stocks makes it clear that jobbing, in the sense of buying with the object of reselling within a short time or vice versa, was a feature of the stock-market long before the Revolution.[6] But it was jobbing of a primitive

[1] 9 Anne, c. 26; 10 Anne, c. 34. In 1710 the African Company was advised that it had the power to make a bill of sale of its assets to its creditors, but apparently it did not choose to risk so doing (P.R.O., T. 70/101, fos. 123r., 123v.). Compare *Somers' Tracts* (1813), x, 619, for Propositions put before Parliament by the Earl of Nottingham which would have made shareholders in the East India Company liable to make up from their own pockets any deficit between the net assets and the issued stock of the company.

[2] *Court Minutes of the East India Company, 1668–1670*, p. 182; P.R.O., T. 70/76, fo. 4v.

[3] *Court Minutes, 1668–1670*, pp. 3, 6, 93.

[4] *Court Minutes, 1660–1663*, p. 320; *1664–1667*, pp. 11, 130, 133; *1668–1670*, pp. 71, 163. P.R.O., T. 70/77, fos. 34r., 43v., 49r., 77r.

[5] James Whiston in his *Merchants Weekly Remembrancer* for 23 May 1681 advertised himself as willing to sell both India and African stocks. Since he was certainly not a registered holder of the latter he must have been acting as a broker.

[6] For example, Joseph Hearne appears in the East India Company's Minute Book as the purchaser of £1650 of India stock on 28 March 1683. On 2 April following he appears as vendor of £1050. Altogether in 1683 he bought £20,350 of India stock in twenty-six lots and sold £12,000 in twenty-six lots. He sold a large part of the balance in January 1684.

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kind. Men like Robert Woolley, Abraham Dòlins, Joseph Hearne and John Bull, who bought and sold stocks with remarkable freedom, were merchants or brokers who jobbed as a sideline. Their business was as yet neither organized nor centred upon a known place. In the absence of professional jobbers always ready to buy and sell on their own terms, the price at which stock changed hands must often have remained secret and the margin left for individual bargaining was probably wide.[1] All transfers had to be registered in the company's books and signed by both parties. Since proxies were permitted only in very special cases, this would normally entail attendance in London. Thus, while dealings in the stocks were large, they tended (before 1690 anyway) to be confined mainly to those investors who were in touch with commercial intelligence and personalities.

Finally, throughout the century investment in joint-stock ordinary shares remained more or less of a gamble. In the years after the Restoration, when India stock was progressing towards the status of a respectable and secure investment, heavy capital gains and losses could still be made in a matter of weeks or even days. In 1683 the arrival of bad news from the East sent India stock down by a hundred points in three days;[2] and in 1685 the margin between the maximum and minimum prices recorded in the year was at least a hundred and forty. Thus, while many investors were content to hold through all the fluctuations in a company's fortunes, there were opportunities for the speculator who played for capital gains rather than for steady dividends.

Together these factors help to explain the insignificant part played by the really small investor who in the twentieth century holds a large part of the capital of many public companies. A recent analysis of the ownership of the capital of leading British companies in 1942 defined the small investment as £500 or less.[3] This definition, with appropriate adjustment for changed values, would show practically no small investments in the seventeenth century: though splinter holdings of £150 or under may be numerically considerable, in aggregate they amount to only a very small fraction of the capital of the leading companies.[4] In the analysis which follows the small investment has been defined as £300 and under, the medium as over £300 and under £2,000, and the large as £2,000 and over.

Taking the African Company first, it is clear that the medium-sized investments formed the backbone of the stock. It is notable, however, that the small-investment group steadily increased both its numbers and its aggregate holding, while the large investment was conspicuous mainly by its absence. Even at the height of the boom of 1691, immediately prior

[1] The practice of putting up stock for auction, usual in the early part of the century, appears to have been discontinued.

[2] *A Young Squire of the Seventeenth Century*, ed. J. C. Jeaffreson, II, 53.

[3] Hargreaves Parkinson, *Ownership of Industry*, p. 22.

[4] In April 1675 there were eighty-six holdings of India stock of £150 or less. In aggregate they accounted for less than 2½ per cent. of the whole stock.

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to a scrip dividend of three hundred per cent., the large-investment group can hardly be said to have held a significant portion of the stock. By contrast, the distribution of India stock bears out contemporary allegations that it was falling more and more into the hands of large investors. The distribution of the stock in 1691 shows the clear and growing dominance of the large-investment group, a trend which was continued in the next two years. These calculations are based on nominal values; since India stock was normally above, and frequently well above, par, the number of holdings worth less than £300 must have been very small indeed.

Classification of stock by size of holdings

1. East India Company

Size of holding	No. of holdings	Stock held April 1675	Percentage of total stock	No. of holdings	Stock held April 1691	Percentage of total stock	No. of holdings	Stock held April 1693	Percentage of total stock
£300 and under	226	£43,135	11·7	143	£25,513	3·4	153	£27,464	3·8
£301 to £1,999	291	£209,625	56·7	230	£197,430	26·6	212	£175,425	23·8
£2,000 and over	30	£117,131	31·6	94	£516,839	70·0	84	£536,893	72·4
	547	£369,891	100·0	467	£739,782	100·0	449	£739,782	100·0

2. Royal African Company

Size of holdings	No. of holdings	Stock held April 1675	Percentage of total stock	No. of holdings	Stock held Sept. 1688	Percentage of total stock	No. of holdings	Stock held July 1691	Percentage of total stock
£300 and under	37	£6,500	5·8	73	£13,650	12·2	88	£16,450	14·6
£301 to £1,999	154	£96,000	86·5	126	£87,150	78·5	119	£79,250	71·4
£2,000 and over	3	£8,600	7·7	4	£10,300	9·3	6	£15,600	14·0
	194	£111,100	100·0	203	£111,100	100·0	213	£111,100	100·0

3. Bank of England

Size of holdings	No. of holdings	Stock held July 1694	Percentage of total stock
£300 and under	561	£92,550	7·7
£301 to £1,999	778	£530,350	44·2
£2,000 and over	170	£577,100	48·1
	1,509	£1,200,000	100·0

Notes. A. The analysis of the East Indian and African Companies is based on nominal values of paid-up stock. Quotations of these stocks are too few and irregular to attempt a classification based on market values. The analysis of Bank stock is based on the original subscription, of which one-quarter was paid up.

B. In 1682 the East India Company doubled the capital considered paid up; in other words, it 'forgave' stockholders the 50% of their stock which had not been called up and thus the owner of £1,000 was credited with £2,000. But, while this artificially increased the number of persons whose holdings are reckoned large, it should not be allowed to obscure the genuine increase. Thus before the doubling, in 1675, 55·2% of the stock was owned by persons holding £1,000 or more, while in 1691, 70% of the stock was owned by persons holding £2,000 or more.

Scott was inclined to disbelieve rumours about the magnitude of individual holdings in India stock and doubted if even Josiah Child's was as much as £30,000.[1] In fact in April 1691 Child owned over £50,000 of

[1] *Joint Stock Companies*, II, 153.

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India stock and was by no means the only very large investor.[1] Altogether there were eight giant holdings of more than £10,000; between them they accounted for more than a quarter of the whole stock. Full-blooded capitalists, they neither tried to conceal nor were in any way ashamed of the fact that they dominated the company. In a memorandum delivered to Parliament in 1692, it was claimed that neither 'the Company, nor peradventure, any great business in the world did ever thrive where some one or two men, or very few, did not arrive at so much reputation... as to be able to moderate the councils of the commonwealth or society. So it now is in the Netherlands East India Company, and so it was ever in the English East India Company, except for the first seven years after the last change; in which seven years the stock and the company's affairs dwindled away almost to nothing'.[2] The great investor was not only a reality and a necessity but also a positive benefit since, continued the Memorandum, 'He that expects all satisfaction to arise from the profit of his own stock is tied with the two great cords which do almost the whole business of the world, viz. Reward by the profit of his own great stock, and fear of great loss if his own stock should miscarry by ill conduct'.[3]

This readiness to purchase control over companies was not exercised indiscriminately. Before the Revolution it is probably safe to say that no one person or group of persons succeeded in obtaining, or even aspired to, dominion over a number of companies. The total paid-up capital (£481,491. 5*s*.) of the three leading foreign trading companies, the East India, African and Hudson's Bay, was in 1675 distributed amongst about 700 persons, the average holding being about £700. In a business community as small as that of seventeenth-century London and with joint-stock investment opportunities as restricted as they then were, it was inevitable that some shareholders would be interested in more than one company. Yet in 1675 only a quarter of those who invested in African stock were also concerned in the East India Company and they owned no more than one-seventh of its capital. Eleven members of the African Company held one-third of the stock of the Hudson's Bay Company, but no one, not even the greatest City magnate, was concerned in all three companies at this date. The inference suggested is that the smaller investor normally concentrated on his fancy, while the larger investor, instead of dividing his stake-money equally, backed the favourite heavily with a small or medium-sized saving bet on the outsider.[4]

From the table it will be seen that the main difference in the market's estimation of the East Indian and African Companies is to be found in the

[1] Child (£51,150), Sir Thomas Cooke (£40,850), Sir James Edwards deceased (£15,500), Sir Joseph Hearne (£12,938. 6*s*. 8*d*.), Richard Hutchinson senior (£13,950), Sir William Langhorn (£18,200), Sir John Moore (£25,009. 10*s*.), Sir Jeremy Sambrooke (£17,750). From a list in India Office Records, Home Miscellaneous, I.

[2] *Somers' Tracts*, X, 627.

[3] Ibid., pp. 622–3.

[4] For example, Josiah Child in 1675 held £12,000 of India stock and £1,000 of African.

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attitude of the large investor. That he existed, and that he was prepared to plunge is clear from the distribution of both India and Bank of England stocks. Although the Bank was a new type of venture with a future that was far from assured, the large investor was conspicuous from the first.[1] The poor prospects and only moderate success of the African Company were also reflected in the growth in the aggregate holdings of smaller investors who picked up the crumbs as they were discarded from the rich man's table. A propensity to invest appears to have existed at all levels. Where the prospects of a company were good the large investor was ready to plunge. Where they were uncertain the rich man held off altogether or risked only a medium-sized investment. But his abstention left not a vacuum but a vacancy which tended to be filled from below.[2] Given a wider field of investment than that which existed in the later seventeenth century the African Company would probably have had difficulty in raising all the capital it required, and its stock would hardly have been cried up to 200. As it was, it had merely to call upon a relatively greater number of investors than companies whose prospects were better.

An examination of the ownership of the African Company's capital confirms the expectation that holders of ordinary shares would be drawn for the most part from classes which could afford a speculative edge to their investments. While many companies will be found to include a contingent of politicians, men of affairs, courtiers, hangers-on, lawyers, civil servants and country gentlemen, the part they played in the management of the African Company and the aggregate capital they held were not large. In April 1675 African stock was in the hands of one hundred and ninety-four persons, the great majority of whom were London business men. It had its quota of public figures; four of the five members of the Cabal were original beneficiaries of the charter of 1672. But Clifford withdrew in 1674, Shaftesbury in 1677, Arlington in 1679 and Buckingham in 1681, and no one of comparable calibre came in to replace them. The total stock in the hands of such notables in 1675 was no more than £7,500 and nearly half of this was held by one man, the Duke of York, whose hobby the African Company was. Adding in the stock held by courtiers, lawyers, widows, provincial aristocrats, esquires and gentlemen, everyone in fact who would be prima facie unlikely to invest personally in a business enterprise, it appears that about one-fifth of the stock is accounted for.

There remained the business men. Without going beyond the contemporary connotation of the term 'merchant'—whatever that was—it is clear that this class was strongly entrenched in the stock. Of the one hundred and ninety-four shareholders, seventy appear in the London directory of merchants of 1677; in aggregate they account for about £40,000 of the capital. Of two hundred original subscribers to the stock,

[1] I am grateful to Mr C. Ehrlich for valuable assistance in connexion with Bank stock.

[2] An especially large number of small shareholders seem to have entered the African Company in the years 1685–8.

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forty-eight were practising Levant merchants, and in 1675 over a quarter of the nominal capital was in the hands of active members of that company.[1] Other smaller groups of overseas traders who were prominent in African stock were the Baltic and West Indian merchants, most of whom may be taken as members of Gregory King's class of 'greater merchants and traders by sea'. If we add in to this group the London wholesalers who dealt in cloth and other commodities for export, it appears that at least two-thirds and possibly more of the stock is accounted for. Clearly City men dominate the Company, and amongst them the most numerous and prominent were the overseas trading merchants.

The City man of the seventeenth century was of course nearly as vague a figure as his counterpart in the twentieth who is 'something in the City'. He could be a wholesaler, a banker, one of many sorts of broker, a revenue farmer, a ship-owner, or an overseas merchant specializing in trade to one of a dozen countries; or he could combine several of these functions. Knowledge of the period is not yet great enough to attempt a classification of the owners of joint-stock capital along these lines. However, it is possible to say that in the case of the African Company a large part of the stock was in the hands of the top layer, rather than the middle or lower layers, of City society; men of aldermanic status or only just below it. Fifteen of the Lord Mayors, twenty-five of the Sheriffs and fifty-three of the Aldermen of the City of London who took office between the Restoration and the Revolution were at some time concerned in the African stock; while fifteen of the City's members of Parliament elected between 1681 and 1702 were, or had been, shareholders.[2]

The impression left by this inquiry into the ownership of the African Company's stock is somewhat different from the general one conveyed by Scott, who stressed the part which the joint-stock company played in mobilizing capital which might otherwise have had difficulty in finding its way into trade or industry.[3] In the case of the African Company the flow of capital from the land or the Court to trade was more spectacular than substantial. The main current was rather from overseas trades, such as the Baltic and the Levant, in which private merchants were more or less free to employ their capital as they chose, to a trade in which the advantages of corporate organization appeared to be decisive.[4] In this particular instance the joint-stock company, far from promoting the economic well-being of the country, was drawing capital away from trades in which profits might have been made towards a trade in which the risks were great and the ultimate loss almost complete.

[1] Names of active Levant merchants are taken from records of payments of impositions upon goods exported to and imported from Turkey in P.R.O., S.P. 105/166.

[2] A. B. Beaven, *Aldermen of the City of London.*

[3] *Joint Stock Companies*, I, 442.

[4] It was no accident that merchants trading to North-Eastern Europe should have been interested in the African Company; one of the principal exports to Africa was Swedish iron.

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Much remains to be done before it will be possible to say how far these conclusions apply to companies other than the African. They certainly are not equally valid for the contemporary East India Company. Although it is clear that at all times those who bought India stock at the top of a boom stood to lose anything up to a quarter or a half of their outlay, it enjoyed and deserved a reputation for greater security than the African. A tentative scrutiny of the shareholders in this company partly confirms contemporary complaints that some of the share-capital was passing out of the hands of 'mere merchants'. In 1691 there were fifty-six women concerned in the stock, twice as many as in 1675. Of the four hundred and sixty-seven shareholders in 1691, sixty-seven were beyond the reach of the denunciations of the opposition—they were dead men and women whose holdings were allowed to sleep peacefully, sometimes for years. Despite the very large turnover in the stock, one-third of the shareholders in 1691 had been concerned in the company sixteen years earlier. All these signs suggest the approach of the gilt-edge. Nevertheless, while the number of investors from outside the business community was increasing, the bulk of the capital was probably throughout the century in the hands of City men. All the giant holdings of £10,000 and upwards and the majority of all holdings of £1,000 and above were owned by merchants, bankers and traders. The ordinary shares of joint-stock companies attracted, for the most part, venture capital which a century or more earlier might have gone into land speculation; their appeal was still mainly to those who wished to enlarge their fortunes rather than to those who wished merely to keep their estates intact.

The bonds, by means of which both the East India and African Companies raised so much of their trading capital, were in a different category. As non-speculative, fixed-yield, redeemable securities, unlikely to depreciate, they commended themselves to persons not familiar with the wayward habits of the embryo stock-market. They were clearly thought to be especially suitable for women investors. Thus, while women held no more than two to four per cent. of India stock, they held nearly twenty per cent. of India bonds in 1685. Trustee holdings also were very much larger in bonds than in ordinary shares, and there were even a few institutional investors—rare in the seventeenth century—such as the Draper's Company. Similarly, while women held only one per cent. of African stock in 1675, they took up one-fifth of all the bonds which that company issued between 1675 and 1681. In this way the joint-stock company may be said to have provided some outlet for capital which would otherwise have been forced into traditional channels of investment.

In looking at the joint-stock company between 1660 and 1690 we have been examining an institution which was still in process of development. In several respects the African Company which was chartered in 1672 was less gild-like and more suggestive of a modern company than the contemporary East India Company with its longer traditions. As in so many other connexions, the Revolution of 1688 seems to begin a new chapter in the history of the joint-stock company.

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In the 1690's, and more especially after 1700, a new situation developed. In the first place, many more companies were competing for the available capital; without proper supervision their rivalry led to sharp practice and abuse. Secondly, heavy taxation and Government borrowing must ultimately have reduced the capital available for private enterprise. Nevertheless, the general feature of the years before 1690, an abundance of investible capital, remained. On and off for more than forty years before the South Sea Bubble the pressure upon available investment outlets was maintained and intensified. It was the same propensity to invest that the Government was able to turn to good account, and it was on the same tide of optimism that the National Debt put to sea and floated to success.

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